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General Business Conditions

THE trend of business has continued upward during June. Although buyers are following conservative policies, particularly in general merchandise, the common opinion as to Fall trade and industrial activity is one of confidence. It would be hard to find in the situation anything pointing to a significant decline in national income and buying power in the early future, with demand in many lines still unsatisfied, construction and capital expenditures active, prices and wages rising, crop prospects good, and the whole structure supported by the European Recovery Program and by expected larger armament expenditures.

The feature of the month's news has been the spread of third round wage increases, for the most part around 11 to 13 cents an hour. This was the pattern in automobiles, and a number of the automobile manufacturers have advanced prices again. The Aluminum Co. of America has given a wage increase and raised the price of aluminum for the first time in eleven years. Mr. Lewis has obtained another $1 a day for the miners and an additional 10 cents a ton for the welfare fund; coal prices therefore will go up. Wages of rubber workers have been raised and tire prices are expected to follow. General Electric and Westinghouse have had to join the procession and have lifted prices of most products back to where they were earlier in the year, before cuts were made in the unsuccessful effort to check the wage-price spiral. In petroleum premiums are being paid above posted prices.

Prevailing opinion is that most markets can stand these price increases without loss of sales or employment. This is the same as saying that the main trend is still thought to be inflationary.

All eyes are now on the steel industry, which has wage contracts running almost another year and is not threatened with a strike, but which will find it difficult to resist the trend. Steel prices were cut in April, but if wages are raised prices doubtless will be raised also. Iron Age reports that steel company officials "have thrown up their hands in amazement at the continual stream of orders," much beyond their ability to supply.

Another Turn of the Spiral

Thus another turn of the wage-price spiral is now far along. The cost of doing business will be higher and more credit presumably will be used. In short, more inflation is injected into the economy. On the other hand, there are influences which are moderating the price advance. One of these is the fine crop prospect. With the winter wheat harvest advancing rapidly, wheat prices have settled to a new crop basis, very close to the government support level. New crop corn futures are also approximately at the support level, indicating that corn will be substantially cheaper if the crop promise is realized. These declines put a brake on food prices particularly,

CONTENTS

and also on the general price indexes, in which the grains carry considerable weight.

In some soft goods and even a few of the durable kind the markets are now well supplied and merchants can keep commitments down without the fear of being caught short, which has been one of their principal worries in recent years. Prices of cotton print cloths have continued easy in contrast to the general trend. But the decline, which in some constructions has been about 40 per cent since January, has flattened out and covering of Fall needs is expected to give support. There are other soft spots, including shoes, glass containers and a good many luxury lines and services.

What is happening in both the grain markets and in the soft spots in the industries is that production is catching up and the market fever is subsiding. Consumers' requirements are being satisfied and distributors' stocks are filling up. The opportunity for speculative runups and speculative profits has diminished and producers, especially the high-cost producers, are feeling the force of competition. It should be unnecessary to say that the situation is healthier for these changes. The economy does not progress, nor is the standard of living raised, except as production is increased and as it goes forward on an economical and efficient basis, which is hardly to be expected when every producer has a market for all he can turn out at almost any price.

Demand Still Unsatisfied

These instances of softening hold little threat to industrial operations. Some curtailment is appearing, but it counts for little overall. Automobile manufacturers are making slower headway against their backlogs than they or their customers hoped, while demand, as measured by dealers' order books and huge premiums paid for used cars, seems insatiable. Steel and automobiles are the two key industries of the country. Considering also the strength of the petroleum situation, the farm machinery, railway and utility equipment backlogs, and record-breaking building contract awards, no lapse in industrial activity seems likely in the early future. Rather, output should increase, since the danger of major strikes evidently has passed, and the huge expenditures on industrial plant and equipment will add something to capacity and improve efficiency. Sharp gains, however, can hardly be expected, for the working force is fully employed and bottlenecks such as the scarcity of steel scrap limit expansion in the areas where demand is most insistent.

The present state of business justifies the attitude of those who were quick to throw off the doubts of a few months ago, created when prices declined last February. Most of the important developments since that time have been of a kind to strengthen trade and industrial expectations. The tax reduction, European Recovery Program appropriations and the increase in projected armament expenditures have all had that effect.

Stockpiling and Farm Price Supports

Also, the Government evidently will be supporting prices more directly and for a longer time than was apparent last February. One reason is that the program for stockpiling critical and strategic materials is likely to become more active, especially if prices of these materials should soften. The stockpiling program is some two years old, but it has been almost dormant, except for taking over war surpluses. It is unlikely to be pushed now to the point of bidding scarce materials away from general use in any large amounts, but it seems certain to be stepped up not only because of the greater urgency of armament needs but because the intent of the law is that the program be completed within the next three years. Congress has appropriated $300 million for purchases in fiscal 1949 and authorized another $300 million of long-term contracts.

A second reason is the extension of farm price supports, with only minor changes, through the 1949 crops. The price support bill was enacted in the final hours before the adjournment of Congress. With the wartime program due to expire December 31, 1948, the House was pressing for a simple renewal of this program, which promises price support at 90 per cent of parity. The Senate preferred a so-called permanent program, setting up flexible supports with loans between 60 and 90 per cent of parity at the discretion of the Secretary of Agriculture. The Senate bill also provided for desirable changes in the basic program, including revisions in the formula for the calculation of parity prices. The decision was to accept the House measure for eighteen months after the present program expires, or until Dec. 31, 1949 on the "war" crops and June 30, 1950 on the "basic" crops produced in 1949, and to put the long range Senate program into effect beginning with crops produced in 1950. That date is a long way off and it is quite likely that the program will be worked over with greater care before that time.

The fact of present importance in the business outlook is that farmers in the main are assured of high and profitable prices and high incomes — though not necessarily as high as at present —

for another eighteen months or two years. Of course there is another way of looking at it. Representative Buck of New York told the House that the title of the bill ought to be "A bill to guarantee that the high cost of living will not go down for two years and for no other purpose." Representative Gross of Pennsylvania, who described himself as the only farmer on the Committee of Agriculture, made the following statement:

Mr. Chairman, this whole parity program is wrong. Parity was not in the beginning set up to guarantee a profit to the farmer. It was set up as a sort of stop-loss order. Think of the ridiculousness of the whole situation. The support price on potatoes for the 1948 production shall be $3.25 in some sections of the country. Why should a farmer plant anything but potatoes for the Government to buy and dump?

Parity was not intended to be an incentive to produce. A price of $3.25 for potatoes will cause a production that the Treasury cannot stand. This will go on all over the land. If they would put the support price, not at a parity that would guarantee anything, but a support price on potatoes in this country at a cent a pound, no farmer would lose his shirt. No farmer would plant potatoes for that dollar. He would plant them for the market.

The 90 per cent farm price supports supplanted the flexible supports of the Agricultural Adjustment Act before the war. Not only was the higher percentage put into effect for the basic commodities named in the Act — wheat, cotton, corn, rice, tobacco and peanuts — but through the Steagall Amendment support was extended to additional products. In one way or another virtually all farm products have had support programs. The Steagall commitment ran for two full years after the declaration of the end of hostilities, a period set as an added inducement for farmers to increase cultivation and expand animal numbers during the war with assurance of protection in the readjustment period afterward. This commitment was due to expire Dec. 31, 1948.

As it turns out the farmer has had little need of protection since the war ended and is better able to give it up now than city people are able to stand a continuation of present food costs. It is deplorable that at a time when inflationary forces are on the move again government measures should be interposed to halt any countermovement. The saving element is that many farm prices can decline considerably before reaching support levels at 90 per cent of parity. Prices received by farmers as a whole were 118 per cent of parity on June 15.

Good feed crops this year at reasonable prices would be the most beneficial development that could possibly occur in the farm situation, and if the prospect holds the effects everywhere will be favorable. Farmers who buy feed to produce animal products have been squeezed by the current season's shortages and high prices, and can look forward to relief. In due time, although not until well along in 1949, more abundant feed will lead to a greater production of meats and other animal products, which in turn will give the consumer relief. The basic remedy for inflationary ills is greater production at lower costs, and on the farms bountiful crops mean lower unit costs. The situation would be immeasurably benefitted if the factory workers who are constantly demanding more money wages, and forcing up unit costs of manufactured goods, would learn the same lesson.

The Building Boom

The business situation is receiving strong support from construction activity, which by any measure is at record levels. The value of new construction put in place during the first five months of this year, according to the Bureau of Labor Statistics, was $6.1 billion, 35 per cent greater than in the same period last year. Residential building showed an increase of 62 per cent, industrial and commercial construction was about the same, all other construction was up by 31 per cent. Recent contract awards, affording a measure of work to be started, indicate that no let-up is to be expected, but rather the contrary. The Dodge reports on contracts awarded in the 37 Eastern states showed for May the highest peacetime total ever recorded, 44 per cent above the same month a year ago.

These are dollar figures, but government statistics are also available on the number of family dwelling units (houses and apartments) started. During the five months the total was 356,000, or 28 per cent above last year. At this rate more dwellings will be started in 1948 than in the previous record year of 1925, when the total was 937,000. Last year 849,000 units were started.

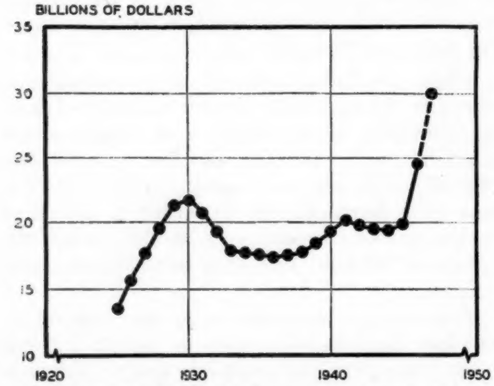
Construction employment in May totaled 2,064,000, exceeding last May by nearly 200,000. This is less than the temporary peak reached in wartime, when the huge war plants were under way, but the number employed in private construction is at a record high for the season. Wage rates move up steadily. Hourly earnings in construction in March (latest report by the BLS) were 12½ per cent above a year earlier.

Materials are more abundant and more closely in balance with requirements than last year, but the intensive demand keeps prices moving up. Lumber prices, which declined after reaching a peak last February, have turned upward again. The BLS wholesale price index of building mate-

rials on June 19 was 12 per cent above a year ago. The rate of rise in this index has slowed in recent months but the upward trend in average hourly earnings is unchecked and both materials and wages are at new highs.

Inflation at Work

There is continuous complaint about the housing situation, and since the need is undeniable it is entirely understandable that proposals for further government subsidies, guarantees, and other assistance designed to increase construction should be popular and receive a sympathetic hearing. The foregoing figures, however, suggest that the question should be examined in another light, namely, whether it is practicable to construct housing more rapidly than is now being done, and whether further grants or aid would result not in *more* housing but only in *more expensive* housing. The long-continued rise in building materials and wages is itself an indication that despite the record-breaking output the housing demand is greater than the supply. The materials and labor available for construction are in general fully employed. Under these conditions measures to increase the demand cannot proportionately increase the supply; they can only increase competition for materials already in the market and for workers who already have jobs. They can only drive construction costs up.



Total Mortgage Debt Outstanding on 1- to 4-Family Urban Homes, end of year. Source: Federal Home Loan Bank Administration (1925-1946); 1947 estimated

In fact, the residential building situation already affords what might well become a textbook example of inflation at work. An immense potential demand has been turned into an effective demand, in excess of supply, by an immense expansion of credit on easy terms.

In the two years 1946 and 1947 the total of mortgage debt on one-to-four family residences increased approximately $10 billion or 50 per cent. The figures are shown, with comparisons for past years, in the accompanying chart. In testimony before the Congressional Joint Committee on the Economic Report November 25, 1947, Mr. Marriner Eccles, then the chairman of the Board of Governors of the Federal Reserve System, estimated that the rate of current mortgage lending had risen to about $1 billion a month. An article in the March Federal Reserve Bulletin said that "mortgage indebtedness on this type of housing has increased during the past two years by an amount greater than new construction expenditures on such housing."

Easy Mortgage Terms

Mr. Eccles, in the testimony above mentioned, described this expansion in "excessively easy mortgage credit for housing" as "perhaps the most inflationary single factor in the present situation." More than half of the credit, according to his calculation, has been extended with the encouragement of the Federal Government under federal mortgage and loan insurance programs, and on terms which it is certain private lenders would never make on their own account.

Under Title VI (now lapsed) of the National Housing Act mortgages have been insured up to 90 per cent of the necessary current cost (with a maximum on single family dwellings of $8,100), with amortization up to twenty-five years. Buyers of houses selling up to $9,000 therefore have had to pay down only 10 per cent. Over and above this title, the Servicemen's Readjustment Act (GI Bill) provides for partial guarantees of construction loans by private lenders, and for full guarantees of loans up to 20 per cent of the purchase price, where a principal loan is made, guaranteed or insured by a federal agency. The effect of this provision is that veterans have been able to buy houses without putting up any money at all. Moreover, the first year's interest on the GI loan is paid by the Veterans' Administration. On higher-priced houses Title II of the National Housing Act provides insurance of mortgages up to 80 per cent.

The Cost of Inflation

This great expansion in mortgage debt has added to the spending power for building directly and for everything indirectly. It has called forth an increase in housing construction, but only at great cost. Part of the cost is the exorbitant rise in building costs and prices, which have moved up substantially more than the prices of manufactured goods in general. Part is the sacrifice of quality. The low productivity which is so widely complained of, in building more than most industries, is chargeable not only to union

restrictions, poor building ordinances, and such factors; it is also due in great degree to over-employment, use of inefficient workers, weakening of incentive to increase man-hour output, and uneveness of materials flow. These in turn are chargeable to the excess of demand financed by excessive credit, and to the acquiescence of buyers in the situation not solely because their needs are urgent, but also because they have been able to borrow so easily and cheaply.

Much of the cost of the inflation of housing demand probably remains for the future to disclose. Many experienced people have warned of the dangers in the easy mortgage terms, of the aftermath of defaults, foreclosures, liquidation and bankruptcies which can be expected to follow if deflation sets in. The losses will fall on people who lose their properties because their equities prove too thin, and on the Federal Government, which insures the mortgages. Mr. Wiggins, Under-Secretary of the Treasury, described the position concisely in a recent speech when he said, "The long arm of government . . . has been reaching out into the field of guaranteeing mortgages, with the possibility that the Treasury may eventually be rapped on the knuckles."

Finally, influences which contribute to inflation in any area add to the instability of the general situation. They contribute to boom and bust. The building boom is a major factor in the general inflation.

Housing Measures Fail in Congress

The failure of Congress, in the rush before adjournment, to extend Title VI, which expired March 30 last, or to pass the Taft-Ellender-Wagner housing bill, with its broad provisions for liberalizing mortgage credit and guaranteeing yields on rental-housing investment, and for public housing and slum clearance, should be judged against this background. Many people, who think that for social or humane reasons the need for housing should outweigh other considerations, see in the loss of these measures only something to regret and deplore. The facts suggest, however, that they overlook first, the impracticability of finding additional materials and labor to increase the output of housing above present figures; and, second, the effects of pouring additional demand into the market when productive facilities are already fully employed.

Builders are quoted as saying that the lapse of Title VI will reduce their operations because they will not be able to sell as many houses when buyers have to put up more money. But it is well-known that a vast number of housing projects, institutional as well as individual, are on the shelf awaiting lower costs, and demand that may be driven out by the lapse of Title VI can be counted on to reappear in sounder form as soon as building can be done on a more economical basis. Elimination of excessive demand is a necessary step toward improving efficiency and offering better homes at lower prices. It is a necessary step toward moderating the boom-and-bust trend and getting back to an orderly and stable situation. Tightening of mortgage terms is a necessary measure for these purposes, and also for the protection of borrowers. Housing needs will keep builders and building labor busy without Title VI or other proposed Federal aids if they will offer more for the money, and they will be better able to do so if some of the congestion created by 90 per cent 25-year mortgages is relieved.

According to a recent report by the Congressional Joint Committee on Housing, the Federal Government has made specific expenditures and commitments and assumed direct and contingent liabilities for housing since 1933 of at least $20 billion. This excludes certain commitments made since the date of compilation, and the current figure would be approximately $22 billion. This staggering sum, developed in fifteen years of government housing activity through a multitude of agencies, would have been enlarged possibly a third or more, over a period of years, if Congress had passed the controversial Taft-Ellender-Wagner housing bill. However persuasive the arguments for the bill may seem, it must be considered fortunate that sweeping new federal aid is not to be superimposed on the already inflated demands. Such aid would expend its force mainly in making housing *more expensive* rather than in producing *more* housing. The situation has already gone too far in that direction, in that people are borrowing too much money on too easy terms to pay for houses that are too high priced for what they get.

The many experienced observers who are pointing this out, and who think that some abatement of this easy mortgage lending was needed, rather than new grants, should not be considered insensitive to the need for housing. What they seek to establish is that at some point the cost of every socially desirable program has to be considered, and that the cost includes not only the directly excessive cost of housing itself, but the cost in unsound financing and in general inflation and instability. People need homes, but as citizens, taxpayers and members of society they also have an interest in the general situation Everyone will suffer if the boom goes on and the bubble bursts.

Controlling the Budget

Events of the past few weeks have raised new questions about the trend of the federal budget and the country's capacity and willingness to meet its new obligations without inflation. With the combination of the tax cut, a much enlarged military program, the enactment of the foreign aid program, and election year pressures to loosen the purse strings, talk has been widely current that there will be a return to deficits in the 1949 fiscal year. As a matter of fact, high Treasury officials openly predicted a deficit in the new fiscal year when the tax bill was enacted. Since then spending proposals of so many different kinds have been under discussion that many people have been led to conclude that the budget has got completely out of hand. The President's original budget proposals last January – which set a spending target of $39.7 billion – were swollen by supplemental requests that he filed chiefly for additional appropriations for national defense and international aid. To a lesser extent Congress itself has taken the initiative and responded to the pleas of department heads or constituents for more money.

At the adjournment of Congress, June 19, all the major appropriations bills had been passed and it is now possible to assess results in at least a preliminary way.

The pressure for enlarged spending – in almost every imaginable direction – has been intense. Yet Congress has made cuts, some of them running to substantial figures. For this no proof perhaps could be more eloquent than the attacks levelled against the Congress for "parsimony" and "penny-pinching". The experience bids fair to repeat what happened last year – only at a higher level of spending. It will be recalled that a year ago when the President proposed his $37.5 billion budget for the fiscal year ended June 30, 1948, the Congress set out to trim expenditures by some $4 to $6 billion. Actually, despite much valiant work by the appropriations committees, spearheaded by Chairman Taber of the House Committee, substantial economies effected in some directions were eaten up by increased outlays elsewhere – mainly in the area of foreign aid. The upshot was that total expenditures for fiscal 1948 came within $1 billion of the President's figure of $37.5 billion. This is exclusive of the provision of the European aid legislation charging $3 billion of the estimated cost of that program against 1948 expenditures even though the actual cash outlay will not be made until fiscal '49.

Notwithstanding this failure to achieve the hoped-for reduction in expenditures, the Treasury closed the '48 fiscal year with a whopping big surplus, in the neighborhood of $8 billion (not counting the charge of $3 billion reserve for '49 expenditures just mentioned). Revenues, which the President in January 1947 estimated at $38 or $39 billion, actually turned out to be near $45 billion, second only to the peak in 1945 when both corporate and individual tax rates were at the wartime maximum.

Of the $8 billion surplus produced by this tremendous flow of revenue, approximately $6 billion was applied to reduction of the national debt, with the remaining $2 billion going to increase Treasury cash balances on hand.

The '49 Fiscal Outlook

For the new fiscal year, the starting point is the President's budget message of last January which projected expenditures for fiscal '49 at a total close to $40 billion. The Congress, under the Congressional Reorganization Act of 1946 calling for a "legislative budget", voted to cut this by $2½ billion to $37.2 billion. Now, already, practical observers recognize that this legislative budget goal is lost – this time mainly by increased military expenditures. Acceding to the recommendations of Air Force Secretary Symington, the Congress has approved a 70 group Air Force proposal which, in the first instance, commits the Government to the expenditure of $3 billion over and above the President's original budget.

Unofficial tallies made since the adjournment of Congress show that direct and permanent appropriations for the fiscal year ending June 30, 1949 were $2.8 billion less than the aggregate amount the President sought in his January budget message and in his subsequent supplemental requests. At the same time, however, Congress voted pay increases for government employes, plus additional contract authorizations for military spending, which, while not in the form of appropriations bills, nevertheless commit the Government to appropriations when the money is needed.

The question as to whether enough has been cut out on balance to prevent actual expenditures from increasing in fiscal '49 above the President's original $40 billion figure cannot be answered until the figures are all available and can be carefully checked. The results, even then, will be tentative and subject to change under the force of events. The discretion allowed to administrators is generally broad, most notably perhaps in the case of the European Recovery Program.

The level of government revenues, in its turn, is subject to business fluctuations. The Treasury's revenue forecast for fiscal '49, of $39½ billion, was based on a national income level of $200 billion. The current level is nearer $210 billion and is generating revenues substantially above $40 billion a year on present tax rates. Evidently, therefore, an expenditure total held close to $40 billion might easily yield a moderate surplus, even apart from the carryback of $3 billion ECA expenditures to fiscal '48.

A Perilous Trend

How hard it is to get a control over government expenditures was demonstrated anew during the debate on the appropriations bill for rivers, harbors and flood control — traditionally an arena for "pork barrel" politics. Dramatic evidence was provided of the pressures behind big spending. The President's budget included $666 million appropriations in fiscal '49—a 60 per cent increase over the current year's figure of $416 million and far and away the biggest figure ever proposed in a President's budget for these purposes. The House Appropriations Committee cut the total back to $539 million — still allowing a 30 per cent increase. The Senate voted $640 million, nearly all the President estimated. A conference between committees of the two Houses resulted in a compromise on $573 million, a 38 per cent increase over fiscal 1948 and a 14 per cent decrease from the President's figure.

A minority report filed in the Senate minced no words:

> The action of the committee majority is totally inconsistent with the will of Congress as overwhelmingly expressed in the resolution finally adopted on February 27, 1948, establishing the legislative budget for the fiscal year 1949 . . .
>
> If we must violate our pledge for curtailed governmental spending, certainly it should be for the purpose of strengthening our national defenses against the threats of the totalitarian powers. Above all, it should not be used to chew up the very materials which, should they be needed, are so vital to our national security.

In the debate on the floor of the Senate, Senator Byrd aligned himself with a Republican minority favoring a cut to $440 million or less. He presented projections of where the Federal budget is headed if a halt is not called to the drift to bigger and bigger spending, through the superimposition of new programs on top of the growing financial demands of programs already authorized or under way. The mounting revenue requirements, Senator Byrd declared, "will mean an increase in taxes which will shake the private enterprise system to its very foundations." As Chairman Bridges of the Senate Appropriations Committee stated in the same debate, "it takes guts" to vote for economy in the face of pressure and propaganda.

Many citizens will hope that this issue will receive the attention it deserves in the forthcoming election campaigns.

The real danger is not in how the budget results for fiscal '49 will turn out. It lies in the trend toward a budget to which new items are constantly being added and from which nothing much is ever subtracted. New projects, constantly put before Congress, have the fatal charm of the "easy payment" plan — the "down payment" of the first year's cost is very little. But when all these plans and programs are added together and projected into the future, the results raise the fundamental question whether American principles of life and government can survive the tax load, the progressive destruction of local and personal sense of responsibility, and the dwindling value of the currency which goes along with a spendthrift government.

> All the costs of local, State and national government must be reduced without fear and without favor. Unless the people, through unified action, arise and take charge of their government they will find that their government has taken charge of them. Independence and liberty will be gone and the general public will find itself in a condition of servitude to an aggregation of organized and selfish minorities.

This statement, from a document signed by Alfred E. Smith and Calvin Coolidge, was quoted with approval by Franklin D. Roosevelt in the 1932 political campaign. It is as true today as it was then.

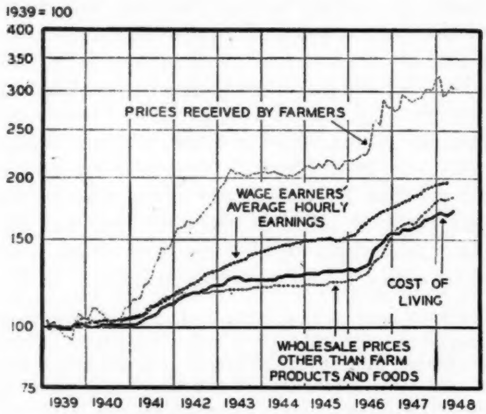
Progress and Effects of Inflation

In February, when grain prices dropped sharply, it looked as though the inflationary spiral might have been broken. The index of consumers' prices reacted two points. Now, however, it appears that what happened then was only a brief interruption to the upward drift of prices, not the start of a general reverse movement and seemingly not even — as many had hoped — a precursor to a period of broad price stability. The balance has swung again, at least temporarily, to the side of inflation, as is manifest in recent wage settlements and price advances as described earlier in this Letter.

The importance of the further rise in cost of living that evidently is now occurring lies not so much in the present move itself, important though it may prove to be, as in the cumulative effect.

It comes on top of a price rise that, in terms of the cost of living, already had cut a 100 cent dollar of 1939 down to a 60 cent dollar of 1947. In terms of countless individual commodities, it takes more than two 1948 dollars to buy as much as one 1939 dollar bought.

The accompanying chart shows the rising course of consumers' prices (cost of living), prices received by farmers, wholesale prices other than farm and food, and hourly earnings of wage-earners outside farming — all expressed as index numbers with 1939 equal to 100.



Trends in Prices Since 1939

Sources: Prices received by farmers, U. S. Department of Agriculture, Bureau of Agricultural Economics; Wage earners' average hourly earnings, Federal Reserve Bank of New York; Cost of living (Consumers' price index) and Wholesale prices other than farm products and foods, U. S. Department of Labor, Bureau of Labor Statistics. All series adjusted to 1939=100 and plotted on semi-logarithmic scale to show relative changes. Average hourly earnings plotted through March; other series through May.

Six Per Cent a Year Price Rise

The rising trend of prices now stretches over ten years, something of a record for endurance of a general price movement. Up to 1942 the rise was accompanied by disappearing unemployment. Since then it has been a rise under conditions of substantially full employment. From 1942 to 1946 the uptrend was slow as price and rationing controls held back the readings on inflation barometers. Since 1946, however, and with the major exception of rents, the indexes of prices, both wholesale and retail, have reflected more fully the effect of the wartime and postwar inflation. The rise in the cost of living since 1939 has averaged six per cent a year, compounded annually. The rise from May 1947 to May 1948 was nine per cent. In May the index stood 72 per cent higher than in 1939.

The increases in the other indexes have been greater. Prices paid to farmers, indeed, are triple the somewhat depressed level of 1939. Wholesale prices other than farm and food are up 84 per cent. Average hourly earnings of wage-earners are double a level that already in 1939 was a record level; they have moved still higher since April, the last date for which this index is available. Farm prices and wages thus have been the active leaders in this inflation.

National Income Inflated

With prices, wages and profits rising, the constant swelling of the national income to new record heights is less a cause for gratification than for concern over the pace and persistence of inflation. For the average person the physical comforts of life in America have attained a new peak in the postwar period. This is the answer that comes out when the national income is adjusted for the increase of population, the price rise, and the greatly enlarged load of taxes. In his Annual Message to the Congress on the State of the Union, January 7, the President figured that the average income of our people, measured in dollars of equal purchasing power, increased — after taxes — by more than 50 per cent from 1938 to 1947. Addressing the extra session of Congress last November 17, the President made a similar comparison with 1929, the pre-depression peak, and found a rise of 39 per cent. The percentages, of course, vary depending on the time span and the relative levels of production, employment, prices and taxes, in the particular year with which the comparison is made.

"Casualties" of Inflation

Despite this auspicious overall record, nevertheless, the President has recognized that there are "casualties" of inflation.

It is only when consideration is given to how particular classes of people have fared that the casualties are discovered. Since the nineteen twenties — the longer period that the President took — there have been important casualties not only of price inflation but also of personal income taxes, which began to rise back in 1932, and of the "easy money" policy of the past fifteen years. Taxes and low interest rates have perhaps resulted in as many enforced rearrangements of life as price inflation. Some people have had to contend against the combination of all three.

The following table, and the charts at the bottom of the opposite page, show the striking differences in the experiences of selected classes of the population since 1930. Indexes are given, for 1930, 1935, 1940, 1945, and 1947, measuring the command over goods and services afforded by a given type of income. Distances above or be-

low the central line show the extent to which persons are better or worse off than in 1930. Federal income taxes are subtracted from the income and the balance after taxes is adjusted for changes in the cost of living. For purposes of tax computations the individual is assumed to be single and without dependents.

Extent to Which a Person Is Better or Worse Off Than in 1930

100 = 1930 Living Standard

	1930	1935	1940	1945	1947
Coal miner	100	104	131	176	191
Textile worker	100	103	107	127	139
Automobile worker	100	115	144	142	132
Printer	100	102	103	97	105
Railway worker	100	116	131	121	122
Railway executive	100	112	117	83	78
Teacher	100	107	120	103	109
Congressman	100	117	114	69	74
Pensioner	100	120	117	75	65
Bondholder	100	88	80	47	38
Small stockholder	100	64	36	65	79
Well-to-do-stockholder	100	63	79	50	58
Wealthy stockholder	100	52	51	23	31

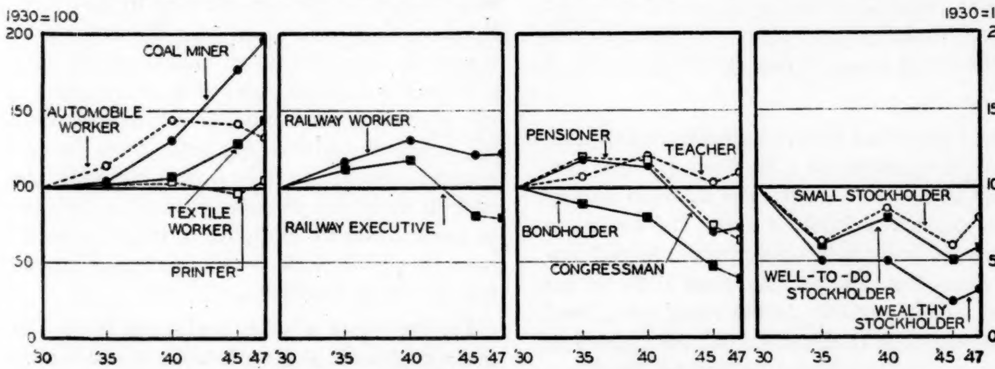
Sources: See footnote to chart.

The first chart illustrates the gains of the average employee in four fields of manual work, coal mining, textile manufacturing, automobile manufacturing, and printing and publishing. The coal miner has done far better than any other group. With the latest pay increase and the 1948 tax reduction, not reflected in the figures, he is twice as well off as he was in 1930. The farmer, too, has been favored by the disproportionate inflation in the price of food and other agricultural commodities during and since the war, though he is not included in the chart because of the special difficulties of computing tax liabilities and adjusting for prices paid. The farmer's gain, and that of the coal miner, have been partly at the expense of other citizens who must pay disproportionately more for their food and fuel.

Disparities Among Wage-Earners

Evidence from the Department of Commerce and other sources indicates that wage-earners in general have enjoyed gains since 1940 and 1930 a good deal greater than those of the population as a whole. But this does not hold true for all groups of wage-earners. The printer, one of the very highest paid manual occupations, is not among those who have scored large gains but at least has been fully compensated for the rise in federal income taxes and in prices since 1930. The cotton textile worker, on the other hand, one of the lowest paying occupations in 1930, has enjoyed a gain in living standard of about 40 per cent since then. The automobile worker enjoyed disproportionately large gains from 1930 to 1940 but thereafter slipped back for a net gain over the seventeen years of 32 per cent. His recent wage boost, plus the 1948 tax reduction, doubtless have pulled him up further.

Within particular industries, a narrowing of income differentials has been cited as a discouragement to men to seek and accept supervisory responsibilities. This problem has arisen partly from the policy in many industries of favoring lower-paid employees in scaling "cost of living" pay adjustments, and partly from sheer economic pressure of strongly entrenched unions. In any case, the steeply progressive individual income tax takes a good deal of the glory out of more responsible posts and works to narrow differenials in pay after taxes. This is evident in the



Extent to Which a Person Is Better or Worse Off Than in 1930

100 Equals 1930 Living Standard

Sources: U. S. Department of Commerce; U. S. Department of Labor, Bureau of Labor Statistics; Interstate Commerce Commission statistics on Employees of Class I Steam Railways; Federal Security Agency, Office of Education, Biennial Survey of Education: National Education Association; Life Insurance Association of America.

All income series are reduced by Federal income taxes and the balance of "take-home" pay is converted into dollars of 1930 purchasing power by use of the B.L.S. Consumers' Price Index. The price index figure for the year 1945 has been adjusted according to the recommendations of the President's Committee on the Cost of Living to show the wartime effects of changes in quality, availability of consumer goods, etc.

second chart where the experience of the railway worker is compared with that of an average railway executive or staff assistant.

How some responsible public officials have fared, whose salaries are established by law, is suggested by the line for the Congressman, in the third chart. He has had one 25 per cent boost in base pay since 1930. Unless he is blessed with an uncommon number of dependents, he may have to turn back to the Government 15 to 20 per cent of his salary. The public school teacher, comparatively well off from 1930 to 1940, lost ground rapidly in the wartime price inflation but has held better than even since 1945. It becomes easy to understand why diffculties have been experienced in attracting high caliber people to the teaching profession — and of holding good men in government service generally — when the indexes in the final block of charts are compared with the indexes covering some of the other occupations.

The "Bloated Bondholder"

The third chart also suggests how a bondholder has fared. Here the net rate of interest earned by life insurance companies is assumed as the average earnings rate on a conservative investment fund of $60,000. In 1930 such a fund gave an income of $3,000; in 1947, it returned about $1,700. When price inflation and income taxes are taken into account, he is under the necessity of cutting his standard of life to three-eighths that of 1930. In 1947 a bondholder would have had to have a principal sum of over $160,000 to realize the living standard that $60,000 provided in 1930.

Not a great deal better off than the bondholder is the person living on a fixed pension, also portrayed in the third chart. The assumed amount of his pension is $3,000 a year. The decline in the cost of living in the early thirties helped him, but since then, and notably since 1940, he has fallen victim primarily to the rising price level. If his pension is at all substantial, the higher rate of income taxation has redoubled the burden.

Of particular interest, in light of the frequent statements that corporations are making too much money, is the record of the person who has his savings in corporate stocks and has lived, in retirement, from the dividend income. With at least average investment skill, and a well diversified portfolio, his income before taxes may have fluctuated something like the total of all dividend payments to individuals. The fourth chart shows how such a stockholder with such an average experience has come out since 1930. Three indexes are given, at $3,000 ("small stockholder"), $30,000 ("well-to-do stockholder"), and $300,000 ("wealthy stockholder") levels of income in 1930. Quite obviously, the average stockholder is not among those who have been able to enjoy a more abundant life.

The dividend income of $3,000 before taxes in 1930 was up to $3,700 in 1947, but the buying power of what was left after taxes was four-fifths that of 1930. Even with the benefit of this year's tax reduction, he is unlikely to regain a purchasing power more than five-sixths that of 1930. The lower levels for the "well-to-do" and "wealthy" stockholders indicate primarily the penalty that has been placed, through the income tax, on large accumulations of common stock investments.

Sources of Inequities

Adjustments in relative rates of pay, between industries and occupations, are inevitably part of the process of attracting enough people to a field of employment to meet the demands. Serious inequities arise when some group exploits labor monopoly or political power to extract for its own benefit disproportionate gains, when statutory salary adjustments are unwarrantably delayed, when tax policies are used to level down the rewards of success, or when the Government may seek to perpetuate an imbalance and spare a favored group the pains of a return swing of the pendulum. One example of the latter sort is the policy of underwriting high prices for agricultural products by federal price supports. Another is the policy of underwriting the high cost of construction by the grant of huge appropriations for public works and by mortgage guarantees for home building.

Lagging wage or salary scales can create serious inequities during an inflationary period but they are nowhere near so serious as the inequities wrought on those whose money incomes do not increase at all or even decrease. The experience of pensioners and bondholders, as illustrated in the third chart, is suggestive of what has happened to some millions of persons living off the

principal amount of their past savings or the interest income. The effective buying power of these savings has been destroyed to the tune of billions of dollars. For example, holders of the $40 billion prewar public debt have had the value of their holdings, in terms of buying power, cut by 40 per cent or $16 billion. A dollar saved five years ago has lost 27 cents of its purchasing power. A dollar saved only one year ago has already lost 8 cents of its purchasing power. Such losses play havoc with all plans for future security, whether under individual, business, or government auspices.

To see how true this is one need only stop to calculate the diminishing value of pension rights to which a person may be entitled upon retirement. A recent study of the Committee on Public Debt Policy shows that, in spite of the large increases in the total volume of life insurance outstanding during and since the war, overall protection afforded has not kept pace with the rise in the cost of living.

The six per cent a year rate of inflation — the average rate of rise in the consumers' price index since 1939 — is a moderate rate as price inflations go. But when the 2½ per cent rate of interest paid on government bonds is compared with this six per cent average rate of price inflation, it becomes clear how far the cards are stacked against the creditor and the saver. It has been calculated that $100 realized today from a $75 Savings bond purchased in 1938, will buy less than the $75 would have bought in that year. And the 2.9 per cent return on the Series E Savings bonds is appreciably higher than the rates paid on government securities available to banks and insurance companies, rates which limit the interest accumulations which the latter can safely allow on savings entrusted to them

A Dangerous Business

Month by month, year by year, people who have been considered, with justice, the mainstay of our society — the great middle class — have been rewarded for their prudence and self-reliance in steadily depreciating coin. These are the people who save for retirement, for the rainy day, for family security, as best they can with the resources at their disposal. They are the people who responded most generously to the calls for funds in the Loan drives of the war emergency. They are the people who pay most of the taxes. They are the people who provide wise leadership in community life all through the country. It is a dangerous business, in a free society, to grind them down, take away their incentives, frustrate their efforts toward security.

Another alarming feature is that a trend of this sort at some point precipitates violent reaction. Inequities and maladjustments like these, as they become worse and worse, create the seeds of depression. Booms have always ended in crash.

Back of this inflationary trend are government policies of spending, lending, and guaranteeing which, more than any other single factor, have been responsible for our taut economy and for the spiralling of prices. The irony of it is that so much of this spending is pressed in the name of social welfare and liberalism. Yet those who see in such spending the menace to the security and freedom of the individual are classed as reactionary and insensible to humanitarian considerations.

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